

Message Text

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SUBJECT: COSTS OF OPERATING ACCREDITED MOSCOW OFFICE

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1. COST ESTIMATE FOR OPENING AND OPERATING ACCREDITED OFFICE IN MOSCOW DEPENDS TO GREAT DEGREE ON ASSUMPTION MADE REGARDING HOW LONG REPRESENTATIVE MUST LIVE IN HOTEL AND/OR WORK OUT OF HOTEL ROOM OFFICE. OUR SURVEY OF RESIDENT REPS, THEREFORE, WAS BROKEN DOWN AS FOLLOWS: ANNUAL EXPENSES BEFORE MOVING INTO BOTH PERMANENT OFFICE AND PERMANENT APARTMENT; CAPITAL COSTS INCURRED IN ESTABLISHING PERMANENT OFFICE AND SETTING UP APARTMENT (INCLUDING RENOVATION, EQUIPMENT AND FURNITURE); AND ANNUAL OPERATING EXPENSES FOR REPRESENTATIVE OFFICE IN PERMANENT BUSINESS AND LIVING LOCATIONS. ACTUAL COSTS WILL OFTEN BE BASED ON MIXTURE OF THESE 3 CATEGORIES, SINCE FIRMS OFTEN CONTINUE TO WORK OUT OF HOTEL ROOM AFTER REP HAS MOVED INTO APARTMENT, AND VICE VERSA. FIGURES BELOW DO NOT INCLUDE MANY OPERATING EXPENSES WHICH FIRMS REFERRED TO AS "WESTERN BUSINESS COSTS" (FOR WHICH THEY DID NOT HAVE INFO READILY AVAILABLE), SUCH AS BUSINESS TRAVEL EXPENSES (BOTH BEFORE AND AFTER FIRM HAS RESIDENT REP), FAMILY RELOCATION EXPENSES, SUPPORT COSTS FROM WEST EUROPEAN OFFICES, LIVING ALLOWANCES AND REPRESENTATIVES' SALARIES.

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2. A. ANNUAL EXPENSES BEFORE PERMANENT OFFICE AND APARTMENT (AMOUNTS ARE LISTED IN DOLLARS)

(A) OFFICE RENTAL	- 40,000
(B) OFFICE EQUIPMENT	- 12,000
(C) TEMPORARY HOUSING	- 27,000
(D) SOVIET STAFF	- 13,000
(E) MISCELLANEOUS	- 15,000

TOTAL	107,000
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NOTES: MISCELLANEOUS INCLUDES TELEX COSTS (\$1500), PURCHASE OF 1 SOVIET AUTOMOBILE (\$4500), PLUS MAINTENANCE, XEROX, ETC.

FOR (A) AND (C) ABOVE, FIRMS CAN USE CURRENT INTOURIST RATES TO ESTIMATE THESE COSTS: FIRST CLASS ROOM - ABOUT \$17,000/YEAR; DELUXE - ABOUT \$27,000/YEAR; AND DELUXE SUITE - ABOUT \$55,000/YEAR.

B. CAPITAL COSTS FOR RENOVATING AND FURNISHING OFFICE AND APARTMENT

(A) OFFICE	- 75,000
(B) APARTMENT	- 75,000
TOTAL	150,000

NOTE: RENOVATION COSTS CAN VARY CONSIDERABLY DEPENDING ON PERCENTAGE OF WORK WHICH ACCREDITED FIRM ASSIGNS TO WESTERN ARCHITECTS AND CONSTRUCTION COMPANIES AS COMPARED TO LOCAL UPDK EMPLOYEES. NEVERTHELESS, WE BELIEVE ABOVE FIGURE - ABOUT \$150,000 - REPRESENTS GOOD ESTIMATE OF WHAT IT COSTS TO SET UP (AS OPPOSED TO OPERATE) AN ACCREDITED ONE-MAN OFFICE.

C. ANNUAL EXPENSES AFTER MOVING INTO PERMANENT OFFICE AND APARTMENT

(A) OFFICE RENTAL	- 10,000
(B) APARTMENT RENTAL	- 8,000
(C) SOVIET STAFF	- 15,000

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(D) MISCELLANEOUS	- 20,000
TOTAL	53,000

NOTES: OFFICE SPACE CURRENTLY RENTS THROUGHOUT UPDK AT 40 R. PER 200 SQ. METERS, OR ABOUT \$10,500 PER YEAR. THE COST OF OFFICE SPACE IN THE WORLD TRADE CENTER -- WHICH IS UNLIKELY TO BE READY FOR USE BY BUSINESSMEN UNTIL AFTER 1980 OLYMPICS -- WILL UNDOUBTEDLY BE MUCH HIGHER.

ESTIMATE FOR (C) ASSUMES 3 SOVIET EMPLOYEES:
DRIVER AND 2 SECRETARIES.

MISCELLANEOUS (D) INCLUDES TELEX, CAR UTILITIES,
ETC. ESTIMATE OF \$53,000 PER YEAR OPERATING EXPENSES
--DERIVED FROM SOMEWHAT LIMITED NUMBER RESPONSES TO
OUR SURVEY (ONLY 5 FIRMS WERE WILLING TO PROVIDE
FIGURES) -- APPEARS TO UNDERESTIMATE CONSIDERABLY
ACTUAL ANNUAL COSTS, WHICH RUN CLOSER TO 175,000-
200,000 RANGE. THIS IS PROBABLY EXPLAINED BY FACT
THAT NO FIRM WAS COMPLETELY IN 3RD CATEGORY FOR YEAR
THEY GAVE FIGURES, I.E., ALL WERE IN PROCESS OF
RELOCATING INTO OFFICE OR APARTMENT.
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